

Message Text

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17

ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /103 W

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R 150415Z JUL 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1586

INFO USMISSION OECD PARIS

UNCLAS TOKYO 9446

PASS CEA, TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FEEBLE ECONOMIC RECOVERY IN JAPAN

1. SUMMARY: MOST RECENT GOJ ECONOMIC ASSESSMENTS NOW
RECOGNIZE FEEBLENESS OF CURRENT RECOVERY PACE. EPA
MONTHLY REPORT RELEASED TODAY CONCLUDES THAT "THE RECESSION
HAS ALREADY BOTTOMED OUT AND THE MOVEMENT OF PRICES REMAINS
STABLE, BUT THE SLUGGISH FINAL DEMAND HAS CAUSED THE TEMPO
OF RECOVERY TO BE VERY SLOW." BOJ ECHOES SAME ASSESSMENT
"ALTHOUGH SIGNALS OF BUSINESS RECOVERY ARE CROPPING UP, THE
PACE OF THE UPSWING IS VERY SLOW AS YET." MOST RECENT
EMBASSY ASSESSMENT COMPLETED LAST WEEK AND BEING TRANSMITTED
IN FINANCIAL DEVELOPMENTS - JUNE 1975 AIRGRAM (A-340) CON-
CLUDES "THE ECONOMIC DATA RELEASED IN JUNE PROVIDE A CLEAR
PICTURE OF THE EARLY PHASE OF JAPAN'S RECOVERY - - A SLOW,
FEEBLE RISE MARKED BY WEAK CONSUMER DEMAND AND NAGGING
INFLATION AT THE RETAIL LEVEL. IN PARTICULAR, THE
LACK OF STRONG CONSUMER DEMAND IS PERSING FAR
LONGER THAN MOST OBSERVERS HAD EXPECTED." FOLLOWING
ARE QUOTED HIGHLIGHTS OF EPA JULY REPORT WHICH MAY BE
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OF INTEREST TO CEA IN VIEW OF ITS FORTHCOMING CONSULTA-

TIONS WITH EPA. END SUMMARY.

2. "DESPITE RISING RESIDENTIAL CONSTRUCTION AND PUBLIC WORKS EXPENDITURES, FINAL DEMAND AS A WHOLE HAS BEEN STAGNANT DUE TO SLUGGISH CONSUMPTION EXPENDITURES, PRIVATE INVESTMENT FOR PLANT AND EQUIPMENT, AND EXPORTS AS WELL. INDUSTRIAL SHIPMENTS WHICH HAD BEEN RISING SINCE FEB, DECLINED IN MAY, AND JOB OFFERS ALSO STAGNATED INDICATING A SLOW RECOVERY. BUSINESS FINANCE EASED FURTHER, REFLECTING DECREASES IN DEMAND FOR FUNDS."

3. "IN VIEW OF THESE CIRCUMSTANCES, THE GOVERNMENT MADE DECISION TO TAKE THE THIRD ANTI-RECESSION POLICY MEASURES ON JUNE 16, WHEREBY, THE GOVERNMENT TOGETHER WITH PRECEDING ANTI-RECESSION POLICY MEASURES, HAS PLANNED TO PUT OUR ECONOMY ON THE PATH OF A STEADY RECOVERY, WHILE MAKING SURE OF PRICE STABILIZATION." (IN REPORT ON PHASE THREE, TOKYO 8033, EMBASSY CONSIDERED IT LIKE A MARSHALLOW -- SWEET, FULL OF AIR, BUT PROVIDING LITTLE NOURISHMENT.)

4. "WHOLESALE PRICES REMAIN STABLE, AND CONSUMER PRICES, WHICH ROSE SUBSTANTIALLY IN THE PAST FEW MONTHS, DECLINED IN JUNE DUE TO A LARGE DROP IN PRICES OF SEASONAL COMMODITIES. WAGE NEGOTIATIONS OF THIS SPRING ARE ALMOST OVER AND THE AVERAGE RATE OF INCREASE IN WAGES STANDS AT 13.1 PERCENT, REPRESENTING A MODERATE RISE."

5. "IN THE BALANCE OF PAYMENTS, IMPORTS WERE STAGNANT AT A LOW LEVEL (SA) WHILE EXPORTS (SA) DECLINED DUE TO STAGNANT BUSINESS CONDITIONS ABROAD, RESULTING IN A CURRENT ACCOUNT DEFICIT IN MAY (SA)."

6. "THE MONTHLY AVERAGE AMOUNT OF CENTRAL BANK NOTES OUTSTANDING INCREASED BY 13.3 PERCENT IN JUNE OVER A YEAR EARLIER FOLLOWING A 14.8 PERCENT INCREASE IN MAY, REFLECTING A DECLINE IN THE RATE OF INCREASES IN WAGES AND STAGNANT CONSUMPTION EXPENDITURES. IN JUNE THE BALANCE OF GOJ FISCAL ACCOUNTS AGAINST THE PUBLIC REGISTERED AN EXCESS OF PAYMENTS OVER RECEIPTS, UNCLASSIFIED

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IN CONTRAST TO THE OPPOSITE BALANCE IN THE SAME MONTH LAST YEAR. THIS WAS ACCOUNTED FOR BY BOTH SLUGGISH TAX RECEIPTS AND INCREASES IN FISCAL OUTLAYS FOR GRANTS TO LOCAL GOVERNMENTS AND FOR SOCIAL SECURITY. THE MONEY SUPPLY (M2 SA) INCREASED BY 1.0 PERCENT IN MAY OVER THE PREVIOUS MONTH, AFTER HAVING INCREASED BY 1.2 PERCENT AND 0.7 PERCENT, RESPECTIVELY, IN APRIL AND MARCH, REPRESENTING RATHER LARGE INCREASES. BUSINESS

FINANCE WAS IN EASY MONEY SITUATION, SINCE DEMAND FOR FUNDS CONTINUED TO DECLINE."

7. LATER THIS WEEK REVISED MAY PRODUCTION SHIPMENTS AND INVENTORY STATISTICS AND PRIMARY JUNE TRADE AND B/P STATISTICS WILL BE RELEASED WHICH EMBASSY WILL TRANSMIT THROUGH USUAL REPORTS.
HODGSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC RECOVERY, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TOKYO09446
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750243-0718
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750753/aaaabvte.tel
Line Count: 123
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 11 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 FEB 2003 by ThomasVJ>; APPROVED <18 MAR 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FEEBLE ECONOMIC RECOVERY IN JAPAN
TAGS: EFIN, JA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006